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Department of City Transit

City of Philadelphia

A PROGRAM

FOR

Rapid Transit Development

WITH

Universal Free Transfers

Resulting from Conferences between the
Director of the Department of City
Transit and the Management of the Phila-
delphia Rapid Transit Company

Submitted to his Honor the Mayor, and the
Special Committee of City Councils ap-
pointed under Resolution of January 15,
1914

FOR CONSIDERATION

PHILADELPHIA, MAY 27, 1914

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A complete program has been outlined at the conferences which have been held between the Director of the Department of City Transit and the management of the Philadelphia Rapid Transit Company and it is herewith submitted for consideration.

LINES TO BE BUILT

This program provides for the construction, equipment and operation of:

1. The *Frankford Elevated Line* from a point of connection with the present Market Street Subway-Elevated at Front and Arch Streets to Frankford.
2. The *Darby Elevated Line* from a point of connection with the Market Street Elevated Line at Thirtieth and Market Streets to Darby.
3. The recommended *Broad Street Subway*, with such branches as may be determined on, and the *Delivery Loop*.
4. The *Camden Tube* from a point of connection with the present Market Street Subway at or near Front and Market Streets to the Pennsylvania Terminal in Camden.

UNIFIED SYSTEM—5-CENT FARE

The program further provides for the operation of the existing and new transit facilities of the City as a unit, in such manner as will best serve the public, including the elimination of all exchange tickets; and further, for the issuing of free transfers wherever surface lines intersect high-speed lines (City's and Company's—Camden Tube excepted) at station points, and at all points of intersection between high-speed lines (Camden Tube excepted). The intent being to make all high-speed lines (City's and Company's) available as a link in a complete journey in a forward direction between any two points within the City for one five-cent fare.

Many vital provisions, which are commented on elsewhere, will be found in the program which provides as follows:

COMPANY'S PROPOSED INVESTMENT	ESTIMATED COST
Frankford and Darby Elevated (Equipment) . . .	\$4,603,000
Broad Street Subway (Equipment)	7,393,000
Total	<u>\$11,996,000</u>

(The tube under the Delaware River to Camden to be built by interests holding that franchise. This line to be leased to the Philadelphia Rapid Transit Company and operated as an extension to the Market Street Elevated service, but with an additional fare of three (3) cents. The franchise to be granted by the City enabling the construction of the tube to be for fifty (50) years, and ownership of the tube, subject to bonds issued for the cost thereof, to be vested in P. R. T. Co.)

CITY'S PROPOSED INVESTMENT	ESTIMATED COST
Frankford Elevated (Structure)	\$6,510,000
Darby Elevated (Structure)	4,390,000
Broad Street Subway—Delivery Loop and Extensions (Structures)	34,682,000
Total	<u>\$45,582,000</u>

NOTE.—Frankford-Darby Line to be operated via Market Street Subway between Front and Arch Streets and Thirtieth and Market Streets, pending the time when the City constructs the Chestnut Street subway or other City-built connections or delivery facilities for these two lines.

METHOD OF EQUIPMENT AND OPERATION

Company to agree to provide all necessary equipment for and to operate the above mentioned City-built lines, or any of them, if and when built, and at the option of the City, any or all City-built lines built during the term of this Contract, on the following basis:

From net earnings deduct Items 1, 2 and 3, as follows:

1. (a) Interest on Company's investment at 6%, cumulative.

(b) In addition to the 6% return on the Company's investment for such equipment, beginning ten (10) years from the date of this Contract, the City shall allow, and the Company shall pay, to a depository to be designated by the City, for its account, 1% per annum upon the cost of such equipment, for the purpose of amortizing the cost of such equipment during the term of this Contract.

The said depository may invest such amortization fund, as far as practicable, in the bonds which the Company has issued to pay for such cost of equipment, at a price not to exceed 110% of their face value with accrued interest, and the interest on such bonds bought with this sinking fund is to accrue for the benefit of and to be paid to the sinking fund for the purchase of additional bonds.

The said payment of 1% per annum for such sinking fund on the equipment purchased during each year of this Contract shall cease upon completion of said amortization.

Upon the expiration of the contract period of fifty (50) years, the Company shall surrender the then existing equipment of the City-built lines to the City on being paid the cost thereof.

Accruals in the aforesaid sinking fund may be used by the City for the purpose of making such payments.

When the equipment is so surrendered by the Company to the City, all reserve, depreciation and amortization funds which may have been established and accumulated in connection with the maintenance and operation of the City-built lines shall be paid to the City.

2. Preferential Payments.

The base figure which shall be used in ascertaining the amount of the preferential payments as hereinafter specified, shall be that amount which represents 110% of the average annual net income (other than that derived from exchange tickets) of the Company from its present system with surface extensions for the two fiscal years prior to the operation of the first City-owned high-speed line, unless during the first of the two fiscal years aforesaid there be some unforeseen, unusual and abnormal occurrence which causes an abnormal decrease in the net income of the Company, then the base figure may be taken at 115% of such average annual net in-

come for the preceding and succeeding fiscal year; or if there should be such an occurrence during the last of the two first mentioned fiscal years which causes an abnormal decrease in the net income, then the base figure may be taken at 120% of such average annual net income for the two preceding fiscal years.

If other City-owned high-speed line or lines be placed in operation thereafter while the Company is entitled to the preferential payment calculated as prescribed herein, then the base figure of annual net income of the present system with surface extensions prior to the beginning of operation of such subsequent City-owned line or lines should be calculated as prescribed for the first City-owned line, but there shall be added the net income specified diverted from the present system with surface extensions by the operation of the said first operated City-owned line or lines.

If other City-owned lines be placed in operation after a preferential payment ceases to be necessary, then the base figure of annual net income of the present system with surface extensions prior to beginning of operation of such subsequent City-owned lines shall be calculated as prescribed for the first City-owned line.

If the net income of the then existing system of the P. R. T. Co. (except Camden Tube) in any year after the opening of a municipally-owned line falls below the *base figure*, the preferential payment shall be the amount required to make up the difference between the net income for such year and the *base figure*; provided, however, the amount of any such preferential payment shall be limited to and shall never exceed such decrease in the net income of the then existing system of the P. R. T. Co. (except Camden Tube) which results solely from the diversion of such normal net income as may have been gained prior to the opening of municipally-owned line or lines.

In determining the amount of any preferential payment it will be presumed that any decrease in the Company's net income below the *base figure* is due to such diversion of traffic, except to such extent as it may be shown to be due to other causes.

CREDITS ALLOWED CITY ON PREFERENTIAL PAYMENTS

After the preferential for any year has been so determined it will be reduced by these credits, namely:

(a) The net income resulting from the operation of the Camden Tube.

(b) The difference between the rate paid and 6% on operator's equipment investment.

(c) Payment made for the use of the Market Street Line between Thirtieth and Front and Arch Streets.

3. Interest and sinking fund on City's investment, cumulative.

DIVISION OF SURPLUS EARNINGS

4. Divide balance of surplus earnings of all City-built lines between the City and Company, in proportion to their relative investment therein (Market Street Subway investment excluded).

FREE TRANSFERS

5. Free transfers to be given wherever surface lines intersect high-speed lines (City's and Company's) at station points, enabling a passenger to transfer in a forward direction (except to and from the Camden Tube), but the aforesaid free transfers shall not be made in the business district until January 1, 1920.

Free transfers to be given all passengers transferring in a forward direction between all Company-owned and municipally-owned rapid transit lines at points of intersection where stations exist (except to and from the Camden Tube).

The intent being to make all high-speed lines (City's and Company's) available as a link in a complete journey in a forward direction between any two points within the City for five cents, but not to compel the Company to give a transfer upon a transfer on its own surface system without a high-speed line intervening. In all cases where the fare collected covers a ride upon any line or lines of the Company and upon any line or lines of the City, the fare collected shall be equally divided between the Company-owned and the municipally-owned lines; that is to say, $2\frac{1}{2}$ cents to the Company-owned lines and $2\frac{1}{2}$ cents to the municipally-owned lines. Should the result of the aforesaid division of fares appear to be inequitable and unjust to either party, such party may require

the question to be submitted to a board of arbitration for determination, one member of which board shall be appointed by the City, one by the Company and the third by the Public Service Commission. The findings of the board of arbitration to be subject to final review only by the Public Service Commission of Pennsylvania.

Such regulations to be established and enforced as may be found necessary to prevent the misuse of transfers.

FUTURE HIGH-SPEED LINES

6. When the City builds the Chestnut Street Subway, or other delivery facilities or connections to the Frankford and Darby Elevated Lines, Company to equip and operate the same on the above basis.

City to have the right to require Company to equip and operate on the above basis additional rapid transit lines or extensions which the City may from time to time build.

SURFACE EXTENSIONS

7. City to have the right to require the Company to extend its surface system from time to time after the Public Service Commission, upon hearing, determines that such extensions are likely to be reasonably remunerative, either separately or in conjunction with the system, to the P. R. T. Co., provided not more than approximately four (4) miles of single track be requested by the City for the years ending June, 1916, and June, 1917.

EXTENSION OF 1907 CONTRACT

8. 1907 Contract to be extended seven (7) years. In future division of earnings provided under Contract, City to receive during last seven (7) years of extended contract and thereafter (if property is not purchased at expiration of extended term) all surplus earnings over 6% on par value of P. R. T. Co. stock.

NOTE.—City to be permitted to capitalize its interest and sinking fund accruals to end of first year of operation. Company to be

permitted to capitalize its interest accruals to end of first year of operation. Such accruals as are capitalized shall not be taken out of earnings and shall be considered a proportionate part of the cost.

MARKET STREET RENTAL

During the operation of the Frankford-Darby Line through Market Street Subway, there shall be charged against the earnings derived from such line under Item 1, such portion of the fixed charges accruing against that portion of the structure which is used by the Frankford-Darby Line as shall bear the same proportion to the whole fixed charge on that portion as the proportion of car miles operated by the Frankford-Darby trains through that portion of the Subway bears to the car-mileage of all trains operated through that portion of the Subway. The fixed charge against the operation of that portion of the Subway which is used for surface cars not to be included in the above calculation. The term fixed charge in this paragraph means 6% on cost.

If the City elects to build the Frankford Line first, the operation and fixed charges against the Frankford Line shall be calculated on the costs westwardly on Market Street to Thirteenth Street *only*, subject to the above mentioned credit. Such Frankford and Darby trains as may be routed through to Sixty-ninth Street or Camden shall only be charged with one-half of the expense and fixed charges which would be due Company for the operation of through trains in the section between Front and Arch Streets and Thirtieth and Market Streets.

UNION TRACTION CO-OPERATION

The Philadelphia Rapid Transit Company will rely upon the Union Traction Company to aid in securing only such funds as will be required for the normal extension of the existing system, the requirements for which will be greatly lessened by the establishment of the new high-speed lines.

Wages paid on and charged against the operation of all new high-speed lines shall be reasonably compensatory for services rendered, but shall not exceed the same rate per hour paid for similar services on Company's high-speed lines at that time.

Union Traction Company and Market Street Elevated Passenger Railway Company to become parties to and be bound by the terms of the agreement with the City.

All dividends accrued on P. R. T. Co. stock up to December 31, 1914, to be waived and cancelled.

The Department of City Transit to have free access at all times to the books, accounts and records of the Company and the right to audit the same.

EXCHANGE TICKETS ELIMINATED

Company to eliminate all exchange tickets, excepting those in the delivery district, which is defined as bounded by Arch and Walnut Streets, and the Delaware and Schuylkill Rivers, both of the aforesaid streets inclusive, on January 1, 1916, and the remainder of the exchange tickets on January 1, 1920, when it is hoped that the Delivery Loop will be in full operation, thus furnishing such added carrying capacity as will avoid any undue congestion in the delivery district. On and after January 1, 1916, one free transfer will be allowed in a forward direction to each passenger using surface lines exclusively at any point where surface lines intersect outside of the delivery district as above defined. On and after January 1, 1920, one free transfer will be allowed in a forward direction to each passenger using surface lines exclusively at any point in Philadelphia where such lines intersect. In consideration of which the City will surrender to Company accrual in sinking fund, and permit the Company to postpone future payments to the sinking fund for ten (10) years from July 1, 1914. The amount so surrendered and postponed to be made up by such larger annual payments by the Company after the aforesaid ten (10) years as will be required to produce the same amount in sinking fund at the expiration of the 1907 contract extended for seven (7) years as would, with interest included, have been produced by the original sinking fund payments at the end of the fifty (50) year term. Further, the City will relieve the Company of the payment of approximately \$116,000 a year, tax on dividends, for a period of six (6) years, beginning January 1, 1915.

IMPROVED SURFACE ROUTING

The Company to have, forthwith, authority to make such changes in its routes and lines as will enable it to take advantage of the economies which can be gained from the substitution of free transfers for exchange tickets.

ARBITRATION

In case of any dispute arising under the agreement, the question shall be arbitrated by one representative each of City, Company and Public Service Commission, whose findings shall be subject to review and final decision by the Public Service Commission.

COMMENTS ON THE PROGRAM

The salient features of the program are as follows:

RECOMMENDED INVESTMENT \$63,000,000

The program provides for a total investment of approximately sixty-three millions of dollars in the transit development, of which about forty-five and one-half millions would be invested by the City in building the subway and elevated lines (which the City would own), about twelve millions would be provided by the Philadelphia Rapid Transit Company for the equipment of the municipally-owned lines and about six millions would be provided for the Rapid Transit Company by outside interests in constructing the Camden Tube. The P. R. T. Co., as operator, would be allowed to deduct from the earnings of the municipally-owned lines 6% on the cost of the equipment supplied therefor, and, after 10 years, an additional 1% on the cost of equipment, which would be deposited in the fund to be accumulated toward the amortization of that cost, and that fund would be available to the City in paying for and taking over the equipment at the end of the 50 years.

P. R. T. CO.'S NET INCOME PROTECTED

The Company would also be protected to a reasonable extent only against such decrease in the net income of the Company-owned lines (except Camden Tube) which would result solely from the diversion of such normal net income as may have been gained by the Company prior to the opening of the municipally-owned line or lines, by the preferential payment, the necessity for which it is calculated would be eliminated by the normal growth of the Company's business within a few years after the opening of the municipally-owned high-speed lines.

CITY'S FIXED CHARGES SENIOR TO ANY COMPANY PROFITS FROM NEW LINES

Subject to these prior deductions, the City would receive all interest and sinking fund payments accruing on the City's investment, before any further division of earnings would be made to the P. R. T. Co.

DIVIDE PROFITS IN PROPORTION TO INVESTMENT

Upon the City being paid its interest and sinking fund accruals on the City's investment in full, any remaining annual surplus resulting from the operation of the City-built lines would be divided between the City and the Company in proportion to their relative investment therein (Market Street Subway investment excluded).

CREDITS ON PREFERENTIAL PAYMENTS

Upon any preferential payment due the Company out of the earnings of the high-speed lines there would be deducted:

1. The net income resulting from the operation of the Camden Tube.
2. The difference between the interest rate paid by the Company and the amount allowed, namely, 6% on operator's equipment investment.
3. The rental paid for the temporary use of the Market Street Subway-Elevated Line, between Thirtieth and Market Streets and Front and Arch Streets, by the Frankford-Darby Line, until Chestnut Street Subway is required.

CITY AND COMPANY BOTH PROFIT BY CO-OPERATION

Thus the City gains the advantage of these items as credits on any preferential payments and also, in calculating the preferential which protects the P. R. T. Co., gains the advantage of any economies or savings which the P. R. T. Co. is enabled to accomplish in engaging in this cooperative program.

FREE TRANSFERS TO ALL

All exchange tickets would be eliminated outside of the district bounded by Arch and Walnut Streets (both inclusive) and the two rivers, on January 1, 1916, after which one free transfer would be allowed outside of that district to each passenger using the Company's surface lines at all points of intersection. On January 1, 1920, the remaining exchange tickets would be eliminated and one free transfer would be allowed to each passenger using the Company's surface lines at all points of intersection within the City of Philadelphia.

Upon the elimination of all exchange tickets outside of the district bounded by Arch and Walnut Streets (both inclusive) and the two rivers, on January 1, 1916, passengers would be enabled to reach any point in that district by taking a line running east and west, either north of the district or south of the district, and by transferring free to the north and south line leading to the point in the delivery district which the passenger wishes to reach. The effect of this arrangement is to give the people a free transfer to the delivery district, subject only to such restrictions as are necessary to avoid the serious overloading of the east and west lines in the delivery district before the City has time to build the Subway Delivery Loop to relieve such congestion as would result otherwise.

EXCHANGE TICKETS ELIMINATED

In consideration of the elimination of exchange tickets by the Company and the substitution of free transfers therefor, as above provided, the City would agree to release the Company from the payment of the tax now paid upon dividends of subsidiary company stocks, as provided by ordinance, in the amount of approximately \$116,000 per annum for a period of 6 years only, or a total amount of approximately \$696,000. The City would also surrender to the Company the accrual in the sinking fund and permit the Company to postpone future payments into the sinking fund for 10 years from July 1, 1914, the sinking fund payments so surrendered and postponed to be made up by such larger annual payments by the Company, after the aforesaid 10 years, as will be required to produce the same amount in the sinking fund at

the expiration of the 1907 Contract extended for 7 years, as would, with interest included, have been produced by the original sinking fund payment at the end of the 50-year term.

Thus the City pays only \$696,000, as above stated, in consideration of the elimination of all exchange tickets and the issuance of free transfers at all points as herein set forth.

PROVISION FOR FUTURE DEVELOPMENT

It is further provided that ultimately, when the Market Street Subway becomes overloaded (which will not be for many years) and when the City builds the Chestnut Street Subway at that time, or other delivery facilities or connections to the Frankford and Darby Lines, or when the City builds any additional rapid transit lines or extensions, the City would have the right to require the Company to equip and operate the same on the basis prescribed.

COMPANY TO MAKE SURFACE EXTENSIONS

The City would further have the right to require the Company to extend its present surface system from time to time, as such extensions are reasonably justified.

EXTENSION OF CONTRACT—COMPANY'S PROFIT LIMITED

In making the proposed extension of the present Contract between the City and the Company for 7 years beyond the present term thereof, in order that longer term bonds may be issued by the Company for its financing, the interests of the City are safeguarded by providing that after the present 50-year term expires all surplus earnings on the stock of the P. R. T. Co., in excess of 6% on the par value, shall be turned over to the City.

CAPITALIZE CONSTRUCTION INTEREST

Provision also has been made for both City and Company to capitalize practically all of the interest and sinking fund payments accruing on their investments during construction and during the first

year of operation, so that such payments would not be a burden to the taxpayers of Philadelphia. This is the method pursued in all great constructive enterprises and provision therefor is made in the pending Constitutional Amendment.

FRANKFORD-DARBY LINE TO USE MARKET STREET

In consideration of the P. R. T. Co. allowing the use of its present Market Street Subway-Elevated Line for the through-routing of Frankford-Darby trains, the City would allow the P. R. T. Co. a rental out of the earnings of the high-speed line for the use thereof, but that rental would be limited to such proportion of the fixed charges accruing against that portion of the structure of the P. R. T. Co. which is used by the Frankford-Darby Line as shall bear the same proportion to the whole fixed charge on that portion of such structure as the proportion of car miles operated by the Frankford-Darby trains through that portion of the Subway bears to the car-mileage of all trains operated through that portion of the Subway, and the fixed charge against the operation of that portion of the subway which is used for surface cars is not included in the calculation.

P. R. T. CO. GIVES UP \$12,000,000 CLAIM

The 1907 Contract between the City and the Company provides that "The Company shall not declare or pay any dividends to its stockholders beyond a return of six (6) per cent. per annum, cumulative from January 1, 1907, on the actual amounts of capital paid into the treasury in cash, calculated from the date of the several payments, without at the same time appropriating from earnings and surplus and paying into the City Treasury a sum equal to that portion of the total dividend which is in excess of the said six (6) per cent. return, so that the City shall share with the stockholders equally in all net earnings properly distributable as dividends over and beyond a return of six (6) per cent. per annum, cumulative from January 1, 1907, upon the paid in capital stock of the Company."

As the Company has not paid any dividends on its stock since January 1, 1907, and under the 1907 Contract is entitled to 6% dividends from that date, before sharing one-half of the profits with the City, a large amount of back dividends, amounting to about 42%, or \$12,000,000, would have to be paid to the P. R. T. Co. stockholders out of any future net income of the Company, in addition to 6%

after this time on the par value of their stock, before the City could hope to have any return from the P. R. T. Co.'s present system.

The program provides that all dividends accrued on the P. R. T. Co. stock, up to December 31, 1914, shall be waived and cancelled, thereby cancelling what is equivalent to a \$12,000,000 obligation of the P. R. T. Co. to its stockholders, which would otherwise have to be liquidated before the City could share in the profits above 6% on the Company's capital stock resulting from the Company's own operations.

CITY TO SUPERVISE COMPANY'S ACCOUNTS

The program also provides that the Department of City Transit shall have free access at all times to the books, accounts and records of the Company and the right to audit the same. This is in addition to the present provision in the 1907 Contract, which gives the City Controller the right to audit the Company's books.

It is provided in the program for the Union Traction Company and the Market Street Elevated Passenger Railway Company to become parties to and be bound by the terms of the program.

It is contemplated that the Company shall forthwith make such changes in its routes and lines as will enable it to take advantage of the economies which may be gained by the substitution of free transfers for exchange tickets. This means that such people as are now carried by indirect routes (which are so arranged for the protection of the Company's exchange ticket business) will be carried more directly than heretofore to destination for 5 cents instead of an 8-cent fare.

UNION TRACTION CO-OPERATION NEEDED

The Union Traction Company will be expected to aid in securing only such funds as will be required for the normal extension of the existing surface system, the requirements for which will be greatly lessened by the establishment of the new high-speed lines.

ONE GREAT UNIT FOR PUBLIC SERVICE

The program, as a whole, assures to the people of Philadelphia a splendid modern rapid transit system, operated in conjunction with the existing lines as one great unit, in a manner which will give the public the greatest service at the least cost.

CITY TO OWN NEW SYSTEM

It provides that the City is to own the new facilities and all their future net earnings excepting such reasonable payments as are allowed the operator, including 6% on operator's investment.

IT ASSURES TO THE CITY AND THE PEOPLE THE ADDED PROSPERITY AND COMFORT WHICH EVERY SUCH GREAT CONSTRUCTIVE ENTERPRISE AND ADDED CONVENIENCE BRINGS; THE COST WILL BE SLIGHT, AND FURTHERMORE THE COST WILL BE MORE THAN COMPLETELY AND GENEROUSLY OFFSET BY THE 1-MILL TAX ON PERSONAL PROPERTY WHICH HAS BEEN TURNED OVER BY THE STATE TO THE CITY AS A PRACTICAL SUBSIDY IN THE AID OF TRANSIT DEVELOPMENT, BY THE GREAT INCREASE IN PROPERTY VALUES AND THEREFORE IN TAX RETURNS WHICH WILL ACCRUE TO THE CITY TREASURY, AND BY THE CANCELLATION OF THE PRESENT EXCHANGE TICKET CHARGE ON THE PUBLIC OF \$800,000 PER ANNUM, WHICH AMOUNT WOULD HAVE INCREASED FROM YEAR TO YEAR.

THE INDIRECT ADVANTAGES MUST NOT BE OVERLOOKED. PRESENT AND EVER INCREASING CONGESTION WILL BE ELIMINATED. THE CITY'S GROWTH WILL BE ACCELERATED. THE EFFICIENCY OF THE POPULATION WILL BE INCREASED BY TIME SAVED, WHICH CAPITALIZED ON THE BASIS OF 15 CENTS PER HOUR AT 5% WOULD AMOUNT TO UPWARDS OF \$38,000,000. THE CITY'S AREAS AVAILABLE FOR DEVELOPMENT WILL BE SO ENLARGED AS TO MAKE COMFORTABLE AND ECONOMICAL HOMES READILY AVAILABLE TO ALL, AND UNDUE CONGESTION OF POPULATION WILL BE PREVENTED.